

New CPI Base Year Improves Confidence for Bold Policy Initiatives

Revised weights, softer underlying inflation and corridor liquidity dynamics suggest room for calibrated action in April, subject to incoming data.



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February 17, 2026 at 9:01 AM IST

The long-awaited revision of India's Consumer Price Index base year to 2024 has more than updated the statistical architecture; it has also improved the credibility and confidence of policymakers to pursue bold policy initiatives. By aligning weights with

contemporary consumption patterns and compressing the disproportionate influence of food, the new series provides a clearer signal of underlying [inflation](#) dynamics, while also indicating room for another cut in the [repo rate](#).

The January 2026 print under the new series placed headline inflation at 2.75%, with rural and urban readings broadly aligned. While comparisons with December's 1.33% under the old base are not meaningful, the more relevant takeaway is that inflation remains well below the 4% target and beneath the Reserve Bank of India's recent fourth-quarter projection. [Food inflation](#) moderated sharply, reflecting strong harvests, and reduction in the food and beverages weight from 45.86% to 36.37%, which reduces the likelihood of exaggerated volatility in headline prints going forward.

Key Changes in 2024 CPI Series

Particular	Old 2012 Series	New 2024 Series
Item basket	299	358
-Goods	259	308
-Services	40	50
Classification of items in No. of Groups	6	12
New items included	--	Rural housing, online media service provider/streaming services, value-added dairy products, barley & its products, pen-drive & external hard disk, attendant, baby-sitter and exercise equipment
Items excluded	--	VCR/VCD/DVD player and hiring charges, radio, tape recorder, second-hand clothing

Source: MOSPI • Created with Datawrapper

The expanded basket and shift to the COICOP 2018 classification framework bring India's [CPI](#) closer to international statistical standards. New consumption categories such as digital services and rural housing improve representativeness, while obsolete items have been phased out (see table above). These structural refinements matter because monetary policy must respond to durable trends, not statistical distortions.

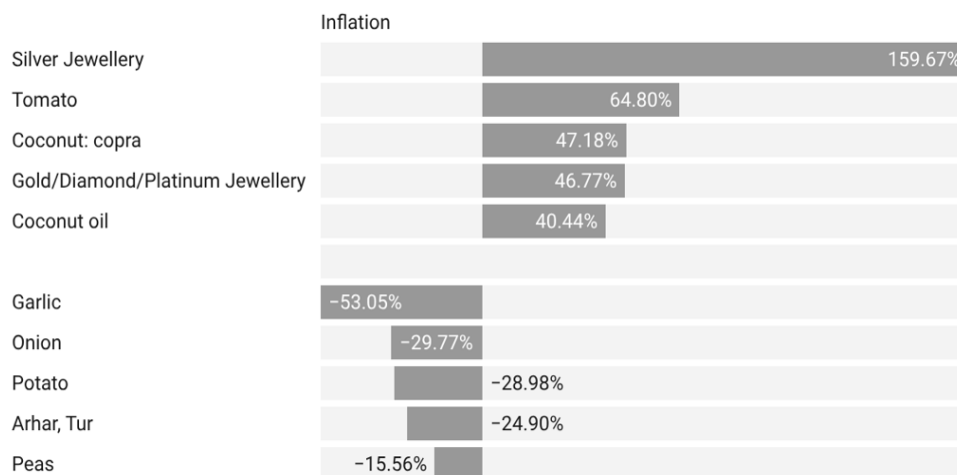
The broader macroeconomic configuration currently reflects moderate inflation alongside stabilising growth conditions. Agricultural output has been supportive, global crude oil prices have remained stable, and early signs of moderation in precious metal prices could ease pressure from volatile components.

Progress on trade negotiations with both the European Union and the United States has improved the external outlook. The announcement of a framework for an Indo-US bilateral trade agreement has helped restore capital inflows, easing pressure on the rupee.

With exchange rate pressures contained and commodity prices relatively stable, average CPI inflation in 2026–27 is unlikely to exceed 4%, barring unforeseen shocks.

Growth momentum, which had shown early signs of softening, may draw support from sustained public capital expenditure under the government’s fiscal consolidation strategy. Yet private capital formation remains the missing link. Elevated real interest rates over a prolonged period have weighed on investment appetite, even as corporate balance sheets have strengthened.

Top 5 Items With High/Low Inflation



Source: MOSPI • Created with Datawrapper

Policy Implications

Many economists have indicated that the [RBI](#) may not go for a further rate cut in 2026-27. The Monetary Policy Committee may opt for a long pause. In the absence of inflation and growth forecasts for 2026-27, reaching such a conclusion is unsound.

In the April 2026 monetary policy, the [MPC](#) will examine the inflation-growth forecasts for 2026-27, which will be based on forthcoming numbers on growth/inflation, released as per the new base year. Pending those numbers, let us see the evolving global and domestic macroeconomic situations, which may warrant the easing cycle to continue.

Global uncertainties are receding, at least for India, due to back-to-back trade deals with the European Union and the US. Pressure on the rupee is relatively less now, following the return of FIIs to Indian stock markets.

The RBI’s [liquidity](#) management is unlikely to face severe complications due to offsetting interventions in the forex market and OMO operations. Following the last rate cut in December 2025, transmission was visible only at the short end of the market.

This made the yield curve steep as the 10-year benchmark yield did not respond to the December rate cut. Currently, more liquidity is being left in the market to accelerate

transmission to the long end of the market. In the absence of variable rate reverse repo operations, the weighted average call rate has softened significantly below the Repo rate.

This is a *de facto* reduction in the Repo rate. The financial markets need more liquidity for further transmission. The economy needs a softer real interest rate regime for higher private capex.

Unless February inflation shoots up close to 4%, which is highly unlikely, there is a window of opportunity for the MPC to cut the Repo rate by another 25-basis-point in April 2026. This will promote monetary policy transmission, accelerate private capex, and complement forward-looking fiscal policy for India's march towards a *Viksit Bharat*.